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Analysis of the Effect of Dividend Policy, return on Assets, and Net Profit Margin on Firm Value

(An Empirical Study of Technology Sector Firms Listed on the Indonesia Stock Exchange (IDX) for the 2022-2023 Period)

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Abstract

This study aims to identify the impact of dividend policy, return on assets (ROA), and net profit margin (NPM) on firm value after the Covid-19 pandemic. The population in this study consists of Technology Sector Companies listed on the Indonesia Stock Exchange (IDX) for the period 2022-2023. A total of 18 technology companies were selected as the sample based on purposive sampling technique. This research adopts a quantitative approach using secondary data obtained from the official website www.idx.co.id as the primary source. The data were analyzed using Eviews 12, with model feasibility tests, classical assumption tests, panel data regression analysis, t-tests, F-tests, and determination coefficient tests. The results of this study indicate that dividend policy (X1) and ROA (X2) do not have a significant effect on firm value (Y); ROA has a negative effect, and dividend policy has a positive effect on firm value. Meanwhile, NPM (X3) has a positive and significant effect on firm value (Y). All the variables in this study collectively have a positive and significant effect on firm value.

Keywords: Dividend Policy; Return on Asset; Net Profit Margin; Firm Value.

1. Introduction

In 2020, Indonesia, like other countries around the world, faced significant challenges due to the Covid-19 pandemic. The impact of this pandemic was not only felt in the healthcare sector but also had wide-ranging effects on Indonesia's economy. The Indonesia Stock Exchange (IDX) was also affected, experiencing significant stock price fluctuations in response to the economic uncertainty brought about by the pandemic. In this context, the IDX became a reflection of Indonesia's economy, which struggled to adapt to the rapid and unexpected changes caused by the Covid-19 pandemic.

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In 2022, the Indonesian economy showed promising recovery after being hit hard by the COVID-19 pandemic in 2020. According to the Central Statistics Agency (2022), Indonesia's economy grew by 5.31% (year-over-year) in 2022, surpassing the government's target of 5.2%. This figure represents the highest growth since 2014. Data from the Indonesian Capital Market Statistics shows a significant increase in the number of stock and other securities investors during the mentioned period. The number of investors surged by 103.60% from 2020 to 2021, with the total reaching 3,451,513 in 2021 compared to 1,695,268 in the previous year. In 2022, the number of investors further increased to 4,439,933 (IDX, 2023).

The rise in stock prices within the technology sector throughout 2021 can be linked to the increasing firm value as a result of heightened digital activity during the Covid-19 pandemic. In this situation, companies had to confront and anticipate various scenarios and conditions to survive and maintain a competitive edge in achieving their primary goals (Abor & Bokpin, 2010). This led to a significant increase in the valuation of companies within the sector, including digital platforms, fintech, storage service providers, and networks. Although Indonesia's economy showed encouraging recovery in 2022 after being hit hard by the Covid-19 pandemic in 2020, the technology sector experienced a significant downturn. Data from the Indonesia Stock Exchange (IDX) shows that throughout 2022, firm value in the technology sector declined by 42.61%, reflecting a significant correction in valuations. This decline occurred due to global sentiment pressure from The Fed’s interest rate hikes within the technology sector. The increase in benchmark interest rates by The Fed, followed by a similar move by Bank Indonesia (BI), has resulted in higher credit interest rates. Consequently, this has increased the interest burden that companies in the technology sector must bear (CNBC Indonesia, 2023). In this situation, investors typically prefer stocks that are less affected by interest rate hikes as a strategy to protect their portfolios, making lower-risk stocks more attractive than those considered riskier, such as those in the technology sector (CNBC Indonesia, 2023).

Fundamentally, every company has a vision manifested in both long-term and short-term goals. Short-term goals are generally oriented toward maximizing profit, while long-term goals focus on enhancing firm value, investor welfare, and sustaining business competitiveness within the sector (Mandjar & Triyani, 2019). The condition of a firm's value reflects its standing in the eyes of investors (Gacus & Hinlo, 2018). To increase firm value, it is essential to execute financial management functions accurately and effectively. According to (Fama & French, 1998), a company’s objective to optimize firm value can be achieved through the implementation of financial management functions, including funding decisions, investment decisions, and dividend policy. By maintaining a high firm value, a company can ensure its sustainability, as investors will continue to be attracted to invest in it. The prosperity of shareholders tends to correlate with high firm value, as an increase in firm value can provide additional benefits to investors, beyond dividends, in the form of capital gains from the shares they own (Putra & Lestari, 2016). Therefore, efficient financial management is crucial for the sustainability and growth of a company (Rasyid & Hastuti, 2022). Various factors can influence firm value. In this study, three factors are examined: dividend policy, Return on Assets (ROA), and Net Profit Margin (NPM).

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2. Literature Review

Signal theory was first introduced by Spence in his work "Job Market Signaling." (Spence, 1974) argued that signal theory is a method of conveying information, where the sender (the owner of the information) attempts to deliver relevant and useful information to the receiver. The receiver then adjusts their actions based on their understanding of that information.

(Brigham & Houston, 2016) suggest that signals conveyed by company management to investors serve as indicators of the company's future prospects. This theory is applied to the variables of dividend policy, ROA, and NPM. These three metricsactas signals to investors and shareholders regarding the company's performance. If dividend policy, ROA, and NPM are high, they can be perceived as positive signals about the company's health and profitability. These metrics can influence investor perceptions and, ultimately, how they affect the company's overall value.

2.1 The Effect of Dividend Policy on Firm Value

According to (Weston & Copeland, 1999), dividend policy involves a company's decision on how to allocate a portion of its earnings, either as dividends to shareholders or by retaining the earnings for future investments. (Ifada et al., 2020) stated that a company's prospects can be assessed based on its dividend distribution policy. An increase in dividend distribution can be seen as a positive indicator, making dividend policy a crucial factor in determining firm value (Riani, 2015). If dividends are high, investors are likely to buy the company's shares, leading to an increase in stock prices (Nianty et al., 2023). Research by (Senata, 2016) found that the dividend policy variable positively influences firm value. The results of this study indicate that any increase in dividend policy will enhance firm value. However, contrasting results were found by (Hendryani & Amin, 2022), who stated that dividend policy does not have a positive and significant impact on firm value.

H1: Dividend policy positively influences the firm value in the technology sector.

2.2 The Effect of Return on Assets on Firm Value

Return on Assets (ROA) is a tool used to evaluate a company's ability to generate profitability from its assets (Ang et al., 1997). A high ROA indicates efficient asset utilization in generating net profit, which attracts investors and enhances firm value (Nabela et al., 2023). A high ROA also increases the opportunity to achieve maximum profit. The higher the ROA, the greater the increase in firm value (Hakim, 2019). This is supported by research conducted by (Dwiputra & Cusyana, 2022) and (Supriyadi, 2021), which found that the ROA variable positively affects firm value. However, different findings were reported by (Hakim, 2019) and (Kartikasari et al., 2023), who stated that ROA does not have a significant effect on firm value.

H2: Return on Assets positively influences firm value in the technology sector.

2.3 The Effect of Net Profit Margin on Firm Value

According to (Kasmir, 2014), Net Profit Margin (NPM) is a ratio used to measure profit margin relative to sales. By increasing NPM, a company can enhance its capacity to generate higher profits, which can ultimately raise the firm's value (Dewiana, 2023). This is supported by studies conducted by (Dandi, 2023) and (Alvian & Munandar, 2022), which found that NPM has a

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significant influence on firm value. However, research by (Sumarna & Aulia, 2021) and (Janice & Toni, 2020) indicated that NPM does not have a significant effect on firm value.

H3: Net Profit Margin positively influences firm value in the technology sector.

2.4 Dividend Policy, ROA, and NPM Positively Influence Firm Value

High dividend policy, ROA, and NPM reflect financial health and efficiency, which can positively impact firm value. A stable and increasing dividend policy signals management's confidence in the company's future prospects and reduces agency cost risks. According to (Erfiana et al., 2016), an increase in dividends paid can send a clear signal to the market that the company's prospects have improved. A high ROA indicates a company's efficiency in using its assets to generate profits, signifying strong competitiveness. A high NPM reflects good profitability and the company's ability to manage costs effectively. These three factors collectively can enhance firm value.

H4: Dividend Policy, ROA, and NPM positively influence Firm Value.

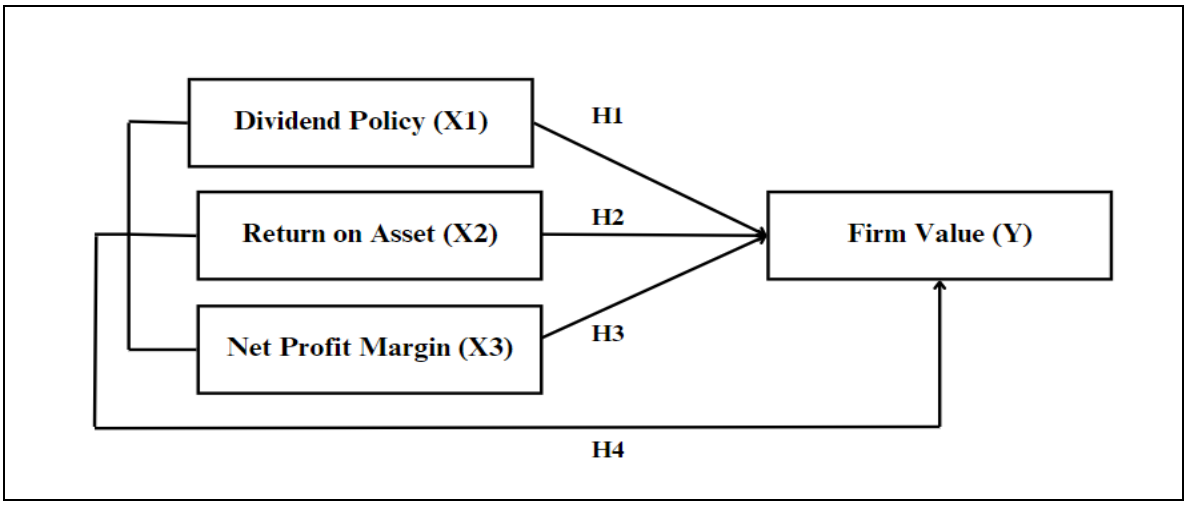

Figure1. Research Model

Research Hypotheses

H1: DP (X1) positively influences FV (Y).
H2: ROA (X2) positively influences FV (Y).
H3: NPM (X3) positively influences FV (Y).
H4: DP (X1), ROA (X2), and NPM (X3) simultaneously influence FV (Y).

This study re-examines the impact of dividend policy, ROA, and NPM on firm value, specifically within the technology sector after the Covid-19 pandemic. The research utilizes secondary data from the Indonesia Stock Exchange (IDX) for the period 2022-2023. The significant difference from previous studies lies in the selected independent variables and the research period.

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3. Method

In this study, a quantitative method is employed using secondary data from financial statements published by companies on the official IDX website, www.idx.co.id. The research focuses on Technology Sector Companies listed on the IDX for the years 2022-2023. The population consists of 47 companies over a 2-year period. The sample selection is conducted using a non-probability sampling method with Purposive Sampling technique, based on the following criteria: 1. Technology sector companies listed on the Indonesia Stock Exchange (IDX) during the years 2022 and 2023. 2. Technology sector companies that have published audited financial statements for the years 2022 and 2023. 3. Companies that have complete financial data relevant to the research variables: Dividend Policy, ROA, and NPM. As a result, a sample of 18 companies meeting the specified criteria is obtained.

3.1Definitions and Measurement of Variables

Dividend policy is the strategy that determines the level of earnings distributed to shareholders as cash dividends, ensures stability in dividend payments over time, and includes the distribution of dividends in the form of stock dividends and share buybacks by the company.

$$\text{Dividen Payout Ratio} = \frac{\text{DPS}}{\text{EPS}}$$

Return on Asset is a tool used to evaluate a company's ability to generate profitability from its assets (Ang et al., 1997). An increase in ROA indicates that the company's assets are becoming more productive in generating net profit (Nabela et al., 2023). The formula used for this research is as follows (Kasmir, 2014).

$$\text{Return on Asset} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Net Profit Margin is a tool used to assess a company's ability to generate net profit from its operational funding (Hakim, 2019). An increase in NPM indicates that the company's operational performance is becoming more efficient in generating profits (Dewiana, 2023).

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Net Sale}}$$

Firm value is projected using Tobin's Q, a ratio that reflects the value of a company's assets, market share, and intellectual capital (Nugroho, 2023). When Tobin's Q is greater than 1, the company is considered overvalued, whereas a Tobin's Q value less than 1 indicates that the company is considered undervalued (Sudiyanto & Puspitasari, 2010).

$$\text{Tobin's Q} = \frac{\text{MVE} + \text{Total Liability}}{\text{Total Assets}}$$

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The multiple linear regression analysis model equation is as follows:

$Y = \alpha + \beta1X1 + \beta2X2 + \beta3X3 + e$

Information:

Y	= FV
α	= Konstanta
β1-β2-β3	= Koe reg
X1	= DP
X2	= ROA
X3	= NPM
e	= error

(Source: Sugiyono, 2010)

4. Results

4.1 Model Feasibility Test

According to (Widarjono, 2007), in evaluating the feasibility of models in panel data estimation, three tests are used: the Chow test, the Hausman test, and the LM test. The first test is used to determine whether to choose the Common Effect Model (CEM) or the Fixed Effect Model (FEM). The second test is conducted to decide between the Fixed Effect Model (FEM) and the Random Effect Model (REM). The final test is used to choose between the Common Effect Model (CEM) and the Random Effect Model (REM).

Table 1. Chow Test Results

Effect Testing	Statistik (Stat)	Std. dev	Prob.
Cf Test	2.744442	(17,15)	0.0277
Cs Chi-square	50.886450	17	0.0000

Based on the test results, if the probability value (prob.) from the F-test and Chi-square test exceeds α = 5%, then the Common Effect Model (CEM) will be selected for panel data regression analysis. Conversely, if the probability value from the F-test and Chi-square test is less than α = 5%, the Fixed Effect Model (FEM) is deemed more appropriate. In this case, with a probability value of 0.0000, which is less than 0.05, the FEM is chosen, and the analysis proceeds with the Hausman test.

Table 2. Hausman Test Results

Summary Test (ST)	Statistik (Stat)	Std. dev	Prob.
Cs R	7.147992	3	0.0673

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Based on the test results, with a probability value (prob.) of 0.0673, which exceeds α = 5%, the Random Effect Model (REM) will be used for panel data regression analysis. If the probability value from the F-test and Chi-square test were less than α = 5%, the Fixed Effect Model (FEM) would be deemed more appropriate. Since the obtained probability value is 0.0673 (which is greater than 0.05), the REM is selected, and the analysis proceeds with the LM test.

Table 3. Lagrange Multiplier Test Results

	Cs	Test Hyp. Time	*Both*.
B-Pagan	2.385933	0.971511	3.357444
	(0.1224)	(0.3243)	(0. 0669)
Honda	1.544646	-0.985653	*0.395368*
	(0.0612)	(0.8378)	(0.3462)
K. Wu	1.544646	-0.985653	*-0593806*
	(0.0612)	(0.8378)	(0.7237)
S. Honda	1.784902	-0.677362	-3.512835
	(0.0371)	(0.7509)	(0.9998)
S. King-Wu	1.784902	-0.677362	-3.010941
	(0.0371)	(0.7509)	(0.9987)
G our, et al.	--	--	2.385933
			(0.1370)

Based on the LM test results, with a probability value (prob.) of 0.1224, which exceeds α = 5%, the Common Effect Model (CEM) is chosen for panel data regression analysis. If the probability value from the F-test and Chi-square test had been less than α = 5%, the Random Effect Model (REM) would have been more appropriate. Since the obtained probability value is 0.1224 (which is greater than 0.05), the CEM is selected for the analysis.

4.2 Classical Assumption Testing

After selecting the Common Effect Model (CEM) based on the model feasibility test, the next step is to conduct classical assumption tests to ensure that the model meets the necessary criteria for regression analysis. These criteria include assumptions related to linearity, absence of multicollinearity, homoscedasticity, and the normality of residuals. The classical assumption tests performed are multicollinearity, to evaluate the degree of correlation among independent variables, and heteroscedasticity, to assess the variance of residuals across the range of predicted values (Basuki & Yuliadi, 2015).

Multicollinearity Test

The Multicollinearity Test is used to determine whether there are significant correlations among the independent variables in the regression model. The ideal regression model is one in which the independent variables do not exhibit strong correlations with each other and are free from multicollinearity.

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Table 4. Multicollinearity Test Results

	DP (X1)	ROA (X2)	NPM (X3)
DP (X1)	1.000000	0.203698	-0.135233
ROA (X2)	-0.203698	1.000000	0.657495
NPM (X3)	-0.135233	0.657495	1.000000

Based on the test results, the correlation values between the variables are as follows: The correlation between DP (X1) and ROA (X2) is -0.203698, which is less than 0.85. The correlation between DP (X1) and NPM (X3) is -0.135233, also less than 0.85. Additionally, the correlation between ROA (X2) and NPM (X3) is 0.657495, which is still below 0.85. These results indicate that the model is free from multicollinearity issues among the independent variables in the regression model (Napitupulu et al., 2021).

Heteroscedasticity Test

The heteroscedasticity test aims to determine whether there is a non-constant variance of residuals across observations in the regression model (Ghozali, 2018). When residuals exhibit varying levels of dispersion among observations, it indicates the presence of heteroscedasticity. The desired regression model is one that is homoscedastic, where the variance of residuals remains stable, and heteroscedasticity is absent.

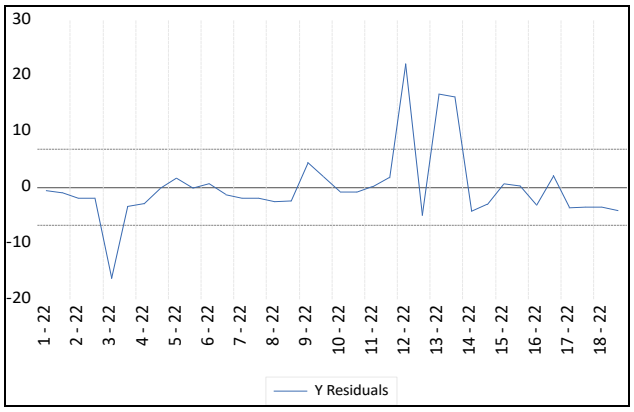

Figure 2. Heteroskedasticity Test Results

Based on the results obtained from the graph (in blue), the values fall within the range of 500 and -500, indicating that the variance of residuals is consistent. Therefore, there are no indications of heteroscedasticity, and the test has passed successfully (Napitupulu et al., 2021).

4.3 Multiple Linear Regression

$$Y = 2.39 + 1.19*X1 - 7.89*X2 + 27.10*X3$$

Based on the results from the regression equation, the following explanations can be made:
The constant value of 2.39 indicates that, in the absence of the variables DP (X1), ROA (X2), and NPM (X3), the variable FV (Y) would increase by 2.39.

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The beta coefficient for DP (X1) is 1.19. This means that, holding other variables constant, an increase in DP (X1) by 1.19 units will result in an increase in FV (Y) by 1.19 units. Conversely, if DP (X1) decreases by 1.19 units while other variables remain unchanged, FV (Y) will decrease by 1.19 units.

The beta coefficient for ROA (X2) is -7.89. This indicates that, with other variables held constant, an increase in ROA (X2) by -7.89 units will cause FV (Y) to decrease by -7.89 units. Similarly, if ROA (X2) decreases by -7.89 units while other variables remain unchanged, FV (Y) will increase by -7.89 units.

The beta coefficient for NPM (X3) is 27.10. This suggests that, if other variables are held constant, an increase in NPM (X3) by 27.10 units will result in an increase in FV (Y) by 27.10 units. Conversely, if NPM (X3) decreases by 27.10 units while other variables remain constant, FV (Y) will decrease by 27.10 units.

4.4 Partial Test (t-test)

The t-test is fundamentally used to measure the extent of the individual contribution of independent variables in explaining the variation in the dependent variable within a regression model. A significant t-test value indicates that the independent variable has a significant impact on the dependent variable when other variables are held constant in the model. In this context, if the significance value obtained is less than the probability threshold (0.05), it indicates that the hypothesis is accepted.

Table 5. t-test Results

Var.	Coef.	Std. Er.	t-Stat.	Prob.
C	2.389415	1.268340	1.883891	0.0687
X1	1.182739	2.457490	0.481279	0.6336
X2	-7.885857	14.37245	-0.548679	0.5870
X3	27.09061	10.22598	2,649193	0.0124

Based on the t-test results, the partial effects of the independent variables on the dependent variable can be explained as follows:

For DP (X1), the computed t-value is 0.481279, which is less than the t-table value of 2.032245, and the significance value is 0.6336, which is greater than 0.05. Therefore, the hypothesis is rejected, indicating that Dividend Policy does not have a significant effect on the value of technology companies listed on the Indonesia Stock Exchange (BEI).

For ROA (X2), the computed t-value is -0.548679, which is less than the t-table value of 2.032245, and the significance value is 0.5870, which is greater than 0.05. Therefore, the hypothesis is rejected, meaning that ROA does not have a significant effect on the value of technology companies listed on the BEI.

For NPM (X3), the computed t-value is 2.649193, which is greater than the t-table value of 2.032245, and the significance value is 0.0124, which is less than 0.05. Therefore, the hypothesis

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is accepted, indicating that NPM has a significant effect on the value of technology companies listed on the BEI.

4.5 Simultaneous Test (F-Test)

Table 6. F-Test Results

R-sque	0.227427
Adj. R - sque	0.154998
S.E of regre.	6.852017
Sum sque. R.	1502.404
Log. Likelihood (LH)	-118.2452
F-statis.	3.140011
Prob. (F-stat.)	0.038751

Based on the test results, the computed F-value is 3.140011, which is greater than the F-table value of 2.90112, and the significance value is 0.038751, which is less than 0.05. Therefore, the hypothesis is accepted, indicating that the variables Dividend Policy, ROA, and NPM can have a simultaneous effect on the firm's value.

4.6 Coefficient of Determination Test

Table 7. Coefficient of Determination Results

R-sque	0.227427
Adj. R - sque	0.154998
S.E of regre.	6.852017
Sum sque. R.	1502.404
Log. Likelihood (LH)	-118.2452
F-stat.	3.140011
Prob(F-stat.)	0.038751

Based on the adjusted R-squared value of 0.154998 or 15.5%, this coefficient of determination indicates that the independent variables Dividend Policy, ROA, and NPM explain 15.5% of the variation in the firm value of technology companies listed on the BEI. The remaining 84.5% of the variation is explained by other variables not included in this research model.

5. Discussion

The Effect of Dividend Policy on Firm Value

Based on the testing results, it can be concluded that while dividend policy has a positive effect, it does not have a significant impact on the value of companies in the technology sector. Technology companies tend to avoid distributing dividends to their shareholders. Their high liquidity needs allow them to respond quickly to rapid market changes and capitalize on sudden investment opportunities. By retaining cash, these firms maintain flexibility in managing their finances and can allocate more resources to research, new product development, and global expansion. Technology companies also tend to have high levels of cash holdings, (Brow

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Peterson et al., 2011) to support the vital need for funding R&D activities, particularly during times of crisis. Significant reinvestment in R&D, along with rapid growth in revenue and profits, is seen as more beneficial for increasing long-term firm value than distributing dividends regularly.

According to (Modigliani & Miller, 1958), the dividend payout ratio is considered an administrative detail that does not directly affect shareholder wealth or the overall firm value. They argued that an increase in dividends does not necessarily mean an increase in firm value, as the firm's value is actually determined by its ability to generate profits from its assets or its investment policies. In this context, dividend policy becomes important because the decision to distribute or retain earnings affects the amount of retained earnings and the company's investment strategy (Sudana, 2011). This finding is consistent with the results of (Hendryani & Amin, 2022), which indicate that dividend policy does not have a significant impact on firm value.

The Effect of ROA on Firm Value

Based on the testing results, it can be concluded that ROA has a negative and insignificant effect on firm value in the technology sector. This is because technology companies often prioritize revenue growth, innovation, and technological development over direct returns from their assets. ROA measures efficiency in generating profits from physical assets, but in the context of technology, firm value is more influenced by long-term growth potential, adoption of new technologies, and intangible assets such as trademarks and patents. These factors may not be fully reflected in ROA, which assesses current financial performance. Additionally, technology companies often experience rapid business cycles and require significant investment in R&D and other capital expenditures, which may temporarily lower ROA without substantially affecting firm value. Therefore, in the technology industry, firm valuation is more likely driven by market expectations of growth and innovation rather than just financial indicators like ROA. This finding is consistent with the results of (Hakim, 2019) and (Kartikasari et al., 2023), which indicate that ROA does not have a significant impact on firm value.

The Effect of NPM on Firm Value

Based on the results of the analysis, it can be concluded that Net Profit Margin (NPM) has a significant positive impact on firm value. A high NPM reflects operational efficiency and the company's ability to generate substantial profits from each unit of sales, which directly correlates with the firm's value in the dynamic and competitive technology sector. In this context, a high NPM indicates that the company is not only effective in managing operational costs but also has the capacity to allocate more resources towards technological innovation and the development of new products. Companies with a high NPM are likely to be more attractive to investors due to their perceived strong growth potential and ability to produce sustainable profits. Achieving and maintaining a high NPM allows a company to build a solid foundation to face market challenges and explore new growth opportunities, thus enhancing its firm value. These findings align with the research of (Dandi, 2023) and (Alvian & Munandar, 2022), which highlight that NPM significantly impacts firm value.

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6. Conclusions and Recommendations

6.1 Conclutions

The study concludes that in the context of the post-COVID-19 technology sector, dividend policy and ROA do not have a significant impact on firm value, whereas NPM has a significant impact. Additionally, collectively, dividend policy, ROA, and NPM show a significant positive effect on firm value, indicating that the combination of these three variables contributes to enhancing firm value in the post-pandemic era.

6.2 Recommendations

1) This study can serve as a guide for future researchers to consider adding additional independent variables, such as innovation levels, ownership structure, global market conditions, or non-financial factors that drive long-term innovation and growth, to provide a more comprehensive view of firm value.
2) Conduct comparative research with companies in other sectors to compare the impact of dividend policy, ROA, and NPM on firm value across different economic contexts and industries.
3) Future studies are encouraged to extend the research timeframe, as research over a longer period may yield more comprehensive and optimized results.

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